CREDIT RATING REPORT
On
CENTRAL INSURANCE COMPANY LIMITED

REPORT: RR/41574/21

This is a credit rating report as per the provisions of the Credit Rating Companies Rules 1996. CRISL's Claim Paying Ability Rating is valid for only one year from the date of rating. After the above period, the rating will not carry any validity unless the company goes for rating surveillance. ***CRISL followed Insurance Rating Methodology published in CRISL website www.crislbd.com***

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Entity Rating:
CPA Rating: AA-

Outlook: Stable

Rating:
Based on Financials up to December 31, 2019

CENTRAL INSURANCE COMPANY LIMITED

ACTIVITY
Non-Life Insurance

DATE OF INCORPORATION
November 12, 1987

COMMENCEMENT OF BUSINESS
December 10, 1987

CHAIRMAN
Mohammed Musa

CHIEF EXECUTIVE OFFICER
Md. Zahid Anwar Khan

EQUITY
TK.1,161.82 million

TOTAL ASSETS
TK.1,859.60 million

	Claim Paying Ability
CPA Rating	AA-
Outlook	Stable
Date of Rating: January 28, 2021	**Valid up to:** January 27, 2022

1.0 RATIONALE

CRISL has reaffirmed the Claim Paying Ability (CPA) rating of Central Insurance Company Limited (CICL) to 'AA-' (Very High claims paying ability) based on the financials up to December 31, 2019 and other relevant qualitative and quantitative information up-to the date of rating. The rating has been upgraded on the basis of CICL's profitable underwriting performance, good capital base, good FDR base, experienced and professional management team etc. CICL sources significant business from renowned group of companies and banks. The company continues to deliver improved and innovative product and services taking due care of the compliance requirements. Based on the financial statement of 2019, its underwriting profit stood at Tk.45.95 million. Profit after Tax (PAT) moved slightly downward to Tk.100.90 million in YE2019 from Tk.105.16 million in YE2018. Pre-tax operating margin increased to 50.44% in YE2019 from 50.42% in YE2018. CRISL views CICL's investment strategy is well diversified having around 87.57% of its funds remaining in cash and deployed in fixed deposits as well as in fixed income instruments and rest 12.43% in capital market investment.

On the other hand, CICL faces challenges from high expense ratio, unrealized loss on capital market exposure, small market share, decline in market capitalization etc. However, reduction of management expense will enhance its overall performance. CRISL expects the company to continue to adopt a prudent underwriting approach, improve business and investment portfolio.

CPA rated in this category is adjudged to offer very high claims paying ability. Protection factors are strong. Risk is modest but may vary slightly over time due to underwriting and/or economic condition.

CRISL also views the company with "Stable Outlook" from the industry viewpoint for overall industry growth and policy and regulations implicated by regulatory authority. CRISL believes that the company will be able to maintain its fundamentals in foreseeable future.

2.0 CORPORATE PROFILE

2.1 Background

Central Insurance Company Limited (CICL) is non-life insurance company. It was incorporated on November 12, 1987 as a public limited company. CICL was incorporated with the initiative of some renowned business personalities of the country having involvement in diversified businesses with the vision "to be leading and most confident and a reliable insurer of the country". It obtained the Certificate of Registration for carrying on insurance business from the Chief Controller of Insurance on November 12, 1987. The company started its business with an authorized capital of Tk.1,000.00 million and paid-up capital of Tk.470.83 million. CICL went into initial public offering in 1994. The shares of the company are listed with both the bourses of the country and are being traded as 'A' category issue. The company has been operating its business with a network of 31 branches located at different districts of the country.

For President & CEO
Md. Asiful Huq
Chief Rating Officer
Credit Rating Information and Services Ltd.

CREDIT RATING REPORT
On
CENTRAL INSURANCE COMPANY LIMITED

CICL earned a gross premium of Tk.362.12 million in YE2019 and reported net underwriting profit of Tk.45.95 million during the same period. Mr. Mohammed Musa is the Chairman of the Board while Management team is headed by Mr. Md. Zahid Anwar Khan as Managing Director & CEO. The company carries out its business operation from its Head Office located at CIC Tower (3rd & 4th Floor), 7-8 Motijheel C/A, Dhaka-1000.

22.2 Shareholding Pattern

Diversified shareholding pattern

CICL was sponsored by a good number of established limited companies which are operating in different sectors. Total number of the shares of the company stood at 47.08 million held by the sponsors, public and institutional shareholders as on December 31, 2019. Out of the above, 41.61% shares are held by sponsors and directors, 49.52% by the public shareholders and remaining 8.87% by ICB & institutional investors. While reviewing the sponsor shareholding pattern of the company it has been observed that 66.10% of the sponsor shares are held by only 11 shareholders ranging between 500,001-1,000,000 shareholdings while the remaining shares are held by other 15 shareholders.

2.3 Market Share

Small Market Share

CICL has been operating its business with average market share over the last couple of years. The non-life insurance industry of Bangladesh reported a gross premium of Tk.36.83 billion in 2019 and Tk.33.99 billion in 2018 which was being shared by 46 companies including the Government owned Sadharan Bima Corporation (SBC). Out of total gross premium of Tk.36.83 billion (including SBC), NICL has earned Tk. 0.36 billion in 2019 against Tk.0.35 billion in 2018. With considering the SBC's portion, NICL's market share stood at 0.98% and 1.03% during the above periods respectively. Against industry growth in gross premium earnings of around 8.36%, NICL's business growth stood at 3.22% in 2019.

2.4 Branch Network

Good branch network

During the reporting period total branches network of CICL has been found to be increased. Total number of branches of CICL stood at 31 as on December 30, 2019, which was 29 in the previous reporting period. Out of the above, 11 branches are in Dhaka, 5 in Chittagong, 4 in Rajshahi, 3 in Khulna, 1 in Sylhet, 4 in Rangpur, 1 in Barisal and 2 in Mymensingh. The branch network has been found to be good compared to many first generation insurance companies.

3.0 INSURANCE INDUSTRY

The COVID-19 (Corona Virus) pandemic has spread with alarming speed, infecting millions and bringing economic activity to a near-standstill as countries imposed tight restrictions on movement to halt the spread of the virus. As the health and human toll grows, the economic damage is already evident and represents the largest economic shock the world. Government of Bangladesh allocated Tk. 386.88 billion as stimulus package in the national budget of 2020-21 to tackle the financial impact of COVID -19.

Competitive Industry

The UNCTAD earlier predicted that apart from the tragic human consequences of the pandemics the economic uncertainty may likely cost the global economy $1 trillion in 2020 and predicts a "Doomsday scenario" the pandemics could cost the global economy up to $2 trillion this year. ADB recently predicts that the coronavirus pandemic could cost the global economy between $5.8 trillion and $8.8 trillion (£4.7 trillion-£7.1 trillion), which is equal to 6.4 per cent-9.7 per cent of the global economic output. In a report by the UN Department of Economic and Social Affairs, UN discloses that the world economy is projected to shrink by 3.2 per cent in 2020 after the coronavirus pandemic sharply restricted economic activity, increased uncertainty and sparked the worst recession since the Great Depression.

For President & CEO
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Credit Rating Information and Services Ltd.

CREDIT RATING REPORT
On
CENTRAL INSURANCE COMPANY LIMITED

The World Bank in its latest 'South Asia Economic Focus' released recently projected that the GDP in the current fiscal year may come down to 2 to 3 percent. The IMF projected Bangladesh's low economic growth for this year which has projected the country's economic growth to be only 2 percent for 2020. The gravity and degree of actual loss will depend on how long this pandemic persists and how the global financial & fiscal regulators and leaders promptly devise policies & strategies to address the issue.

The World Economic Forum's Global Competitiveness Report 2019 ranked Bangladesh infrastructure at 114 out of 141 countries surveyed. Its ranking was 106 for financial system and 109 for institutions. Although power generation capacity has expanded in recent years in part through small private providers, power shortages intensified as growing demand outpaced supply. In the World Bank's Doing Business (2019), Bangladesh ranked 176 among 190 countries on electricity delivery. Public investment remains below budgeted targets because of weak implementation capacity in line agencies. Despite advantages of location and abundant low-cost labor, foreign direct investment remains low. Supply disruptions and weaker domestic demand caused by political unrest slowed industry growth. Annual average CPI-based general inflation stood at 5.65 percent in FY20 against 5.47 percent in FY19.

Metlife (ALICO) is the first foreign insurance operator in Bangladesh. ALICO earned record-breaking gross premium in the life insurance sector. In April 2015, the regulator approved two other joint venture life insurance companies in Bangladesh namely Taiyo Summit Life Insurance Company and LIC Bangladesh Ltd. With the advent of two newly established companies in 2015, the number of foreign insurers will reach three, intensifying competition. Bangladesh's Bank and Financial Institution Division drafted the National Insurance Regulation 2014. The recommendation of the said regulation is expected to improve the insurance market of Bangladesh as it has defined both long-as well as short-term goals. The real GDP growth of Bangladesh also tumbled which was primarily estimated at 5.2 percent for FY20, significantly lower than the target as well as actual growth (8.15 percent) recorded in FY19. Global insurance premium (excluding health) stood at US$ 4781.68 billion in 2018 with growth of 3.30%, Out of total premium US$ 2582.68 billion is attributable to life insurance with growth of 2.54% and US$ 1595.73 billion to non-life insurance with growth of 4.65% in 2018. (Atlas Magazine: June 2019).

The non-life insurance industry of Bangladesh reported gross premium of Tk.45505.40 million in 2019 and Tk.33990.00 million in 2018 which was being shared by 46 companies including the Government owned Sadharan Bima Corporation (SBC). However, presence of large number of companies in a small market leads to tough market competition and unethical practices which has already created a significant number of sick insurance companies in the industry. Understanding the importance of revitalizing the sector in line with the international norms, the regulatory authority made mandatory credit rating in the industry from 2006. Under the above directives, all insurance companies get credit rating report with mandatory surveillance at the end of each year.

Insurance industry of Bangladesh has a long history of evolution. About a century back, couple of insurance companies started both non-life and life insurance business during the British regime in India. However, insurance business got the momentum during the Pakistan regime. Later, GoB established the Bangladesh Insurance Corporation under "The Bangladesh Insurance Corporation Order, 1972" for the purpose of management, administration and development of insurance and re-insurance business in Bangladesh. On the establishment of this corporation the Pakistan Insurance Corporation in Bangladesh dissolved and the Pakistan Insurance Corporation Act, 1952 in its application to Bangladesh also stood repealed. In order to provide for the management of the nationalized insurance business, a holding corporation with 4 subsidiary corporations was created. Out of the 4 subsidiaries, 2 were exclusively for life and 2 for non-life insurance business. The holding Corporation was, however, named "Jatiya Bima Corporation". The Insurance Corporation Ordinance VII of 1973 was promulgated and subsequently enacted as Act VI of 1973 providing for the establishment of a Jiban Bima Corporation for the purpose of taking over the undertaking of the Surma Jiban Bima Corporation and the Rupsa Jiban Bima Corporation on May 4, 1973; and a Sadharan Bima

For President & CEO
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Corporation for the purpose of taking over the undertakings of the Karnaphuli Bima Corporation and for the dissolution of the Jatiya Bima Corporation.

Insurance industry of Bangladesh has suffered from undue political interference, fraudulent claims, inadequate risk assessments and limited quality private sector participation. In order to reduce risk of insurance business the parliament has enacted two Acts namely Insurance Development and Regulatory Authority Act, 2010 and Insurance Act, 2010 and replaced the age old insurance laws. The Department of Insurance has been abolished and substituted by the five-member Insurance Regulatory Authority headed by the Chairman. For further enhancing the solvency position, the paid up capital for non-life and life insurance companies have been raised to Tk. 400 million and Tk. 300 million respectively. The number of Directors in the company has been fixed to 20 including 2 Independent Directors and debarred the Directors of an insurance company to be a Director of another insurance company of same class and of a bank or a financial institution simultaneously. The new law also introduced mandatory solvency margin for the insurance companies. Besides, the insurance companies will be required to ensure international accounting standard, separate Islamic insurance from conventional ones and put a limit on commission expenses. The law also allowed foreign investment in non-life insurance sector. With the promulgation of the Acts, the insurance industry has been placed under the Ministry of Finance from the Ministry of Commerce. The government formed Insurance Development and Regulatory Authority (IDRA), a five-member body to regulate the insurance sector. The authority has been formed in line with the section 3, 5 (1) and 6 of the Insurance Development and Regulatory Authority Act-2010. IDRA has taken initiative to develop of Bangladesh insurance industry as well as to regulate the industry within the purview of the Insurance Act, 2010 so as to ensure a level playing field for all companies. Within a short span of time the authority has succeeded in taking the industry to different height. IDRA has taken action by fixing 15% commission to stop unbridled competition and hefty commission of the insurance companies. The authority also barred on credit business and investment in land & building and discourage in- house business. Besides, IDRA also has taken initiative to introduce offsite supervision by applying CARAMEL rating like central bank's CAMELS rating based on seven key indicators- capital adequacy, asset quality, reinsurance, actuarial issues, management efficiency, earnings & profitability and liquidity. Insurers hope that the authority will bring significant changes in the industry if IDRA is allowed to work as an independent authority.

4.0 CORPORATE GOVERNANCE

4.1 Board of Directors and Board Committees

Fifteen members Board

The Board of CICL composed of 15 Directors including 2 Independent Directors and the Managing Director. The Board is currently Chaired by Mr. Mohammed Musa, a renowned business personality. The Board primarily deals with policy issues and strategic aspects of the company and reviews operational performance on regular basis. The Board held 7 meetings in YE2019. Board of CICL has three subcommittees namely Executive Committee (EC), Audit Committee (AC) and Management Committee (MC) to run its business smoothly and efficiently. The EC is composed of 11 members Chaired by Mr. Zoynal Abedin Chowdhury for reviewing management activities and overall business performance. EC held 3 meetings in YE2019. AC is Chaired by Mr. Mohammad A. Hafiz independent Director, comprising of 4 members to review the internal and external audit report and activities of the branches and departments and to take initiative to find out suspected infringement of laws, rules and regulations etc. AC held 4 meetings in YE2019. The MC composed of 4 members Chaired by Mr. A.M Abid Chowdhury, Independent Director.

For President & CEO
Md. Asiful Huq
Chief Rating Officer
Credit Rating Information and Services Ltd.

CREDIT RATING REPORT
On
CENTRAL INSURANCE COMPANY LIMITED

4.2 Management Team

Experienced top management

During the period under surveillance there have been a no major changes found in corporate management team of CICL. Management team comprised of some experienced personnel. Mr. Md. Zahid Anwar Khan, an experienced personality in the insurance sector is leading the management team as CEO. In his management team, he is aided by a Deputy Managing Director & CFO, a Company Secretary, two Senior Executive Vice Presidents, one Executive Vice President, one Senior Vice President, two Vice Presidents, two Senior Assistant Vice Presidents, ten Assistant Vice Presidents and five Senior Managers. The overall operation of the company is being carried out through seven departments namely Accounts & Finance, Claims & Reinsurance, BCD & Underwriting, Internal Audit, IT, Establishment and Administration. The company has an executive committee, audit committee and management committee.

4.3 Human Resource management

Presently CICL has been carrying out its business with total staff strength of 303 as on December 30, 2019. The company has benefit plans for employees which covers group insurance, incentive bonus, gratuity and contributory provident fund. CICL has no separate training wing. With an objective to develop skills of the employees, different level of executives of the company attended different programs on insurance, non life insurance, professional development and Money Laundering issues.

4.4 IT Infrastructure and MIS

Improving IT infrastructure

During the period under surveillance there have been no significant changes found in IT section. CICL had launched ERP software named INSURANCE MANAGER in YE2016. Before the reporting year CICL had been maintained all recordings manually as well as generated some data through MS office. But now the IT infrastructure of CICL is at an improving stage having up to date ICT devices. Some steps have been taken to more modernize the IT infrastructure. Most of the branches all over Bangladesh already are connected through an IT network. Central Insurance has maintained standalone accounting software for its regular tasks, and the Company has installed firewall device with advance features to ensure proper security. CICL has been able to maintain well furnished record about HR affairs, Payroll, PF, FDR, Business Registrar and Under-writing related reporting services by Insurance Manager Software (IMS). The Company issues all business Cover notes, Policies and others requirements by IMS. The company also has a dynamic website which contains comprehensive information; Annual Report and other relevant information are available for the valued shareholders and customers.

4.5 Marketing Strategy

CICL has been operating with other 45 general insurance companies (except the state-owned SBC) through its traditional product lines. The marketing activities of the company are being carried out by development officers under direct supervision of Mr. Md. Zahid Anwar Khan, CEO. Major businesses of the company come from garments 40.11%, textile sector 22.72%, poultry 11.16%, Light & heavy engineering 11.06%, cement 9.61%, pharmaceuticals 2.04%, jute mill 0.53%, dairy business 0.31% and other industry 2.46%. CICL also earned 20.76% of its gross premium from the government business in YE2019 against 14.09% in YE2018. CICL's total gross income stood at Tk.362.12 million in 2019.

For President & CEO
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Chief Rating Officer
Credit Rating Information and Services Ltd.

CREDIT RATING REPORT
On
CENTRAL INSURANCE COMPANY LIMITED

5.0 BUSINESS PROFILE

5.1 Business Mix

Business portfolio concentrated to capital city Dhaka

CICL carries out all types of Non-life Insurance business as per Insurance Act. The underwriting risk of the company has been found to be increasing during the reporting period. The total underwriting risk stood at Tk.110.76 billion in YE2019 against Tk.105.49 billion in YE2018. The above underwriting risk constituted of Tk.44.32 billion (Tk.42.21 billion in YE2018) in fire business, Tk.55.37 billion (Tk. 52.73 billion in YE2018) in marine, Tk.7.92 billion (Tk. 7.54 billion in YE2018) in Miscellaneous & Engineering and Tk.3.16 billion (Tk. 3.00 billion in YE2018) in motor business category. It has been observed that the company's sum insured equally increased in all four sectors. However, against the above underwriting risk fire business contributed the highest 43.95% of total gross premium, followed by 30.84% from marine, 14.77% from miscellaneous and rest 10.43% from motor business during YE2019. Business portfolio of CICL is yet highly concentrated towards capital city Dhaka. After Dhaka zone, the company had small exposure in other zone during the same period.

5.2 Reinsurance & Claim Settlement

In accordance with the present rule 50% of the re-insurable general insurance business shall be reinsured with SBC and the remaining to be reinsured either with the corporation or any other reinsurer inside or outside Bangladesh. CICL, in line with the existing regulation, has made 100% reinsurance arrangement with SBC. The Re-insurance and Claims Department of CICL composed of 4 members headed by Mr. S. M. Jahirul Alam (Deputy Managing Director), Mr. Golam Rejwany (Sr. Asst. Vice President) and Mr. Wahidur Rahman (Sr. Asst. Vice President), Mrs. Soniya Akter (officer). CICL has surplus treaty for all class of business except motor business, for which the company has excess of loss treaty. In addition, the retention of the company is protected by CAT XL treaty to minimize the retained loss in fire business. During YE2018, the company underwrote total risk of Tk.110.76 billion against which reinsurance coverage was Tk.51.71 billion representing 46.69% gross reinsurance coverage. Claim settlement process starts with the intimation of claim by the claim department. Subsequent to the intimation, a government licensed surveyor is appointed for the assessment of actual quantum of loss. On receipt of required documents from the client and survey report from the surveyor, the documents and the survey report are scrutinized and placed before the authority for approval of the claim. The claims department is headed by one Deputy Managing Director having long experience in claim settlement. The CEO is empowered to approve claim up to Tk.10.00 lac for all business claims. On the other hand, Executive Committee is empowered to approve claim above Tk.10.00 lac up to Tk.15.00 lac for all business claims. Any claims beyond the above limits are placed before the Board of Directors for final approval. CICL has noticeable outstanding claim. As on October 30, 2020 total outstanding claim stood at Tk.81.44 million. As on December 31, 2019 total outstanding claim stood at Tk.84.51 million of which CICL's portion was Tk.27.29 million, SBC's portion was Tk.57.22 million. The above claims are outstanding due to litigation, approval awaiting for SBC, delay in proper document submission etc. The above outstanding claim constituted of 46.56% fire, 33.18% marine, 2.59% motor and rest 17.67% in miscellaneous business. The top 20 claims paid stood at Tk.30.48 million in YE2019 (Tk.7.75 million in YE2018) against which reinsurance amount was Tk.7.99 million (Tk.2.93 million in YE2018).

5.3 Underwriting Quality and Expertise

Almost static in underwriting performance

CICL's underwriting activities are being carried out under a separate Underwriting Department supervised by an SEVP. The company has been continuously following fire, marine and motor tariff published by Central Rating Committee named as Bangladesh Fire tariff, Bangladesh Marine tariff, Motor tariff. Exceptionally Miscellaneous insurance business underwrites as per underwriting manual. The Central Rating Committee modifies tariff rates after every specified period and has flexibility to adjust the tariff rate according to the performance of the specific sector and the client. The officers and staff involved in underwriting activities are well educated and well trained; most of them have long years of experience. CICL underwrote 21 high valued risks (more than one billion) assignments during YE2019 with a total amount of

For President & CEO
Md. Asiful Huq
Chief Rating Officer
Credit Rating Information and Services Ltd.

Tk.42.73 billion. CICL's business portfolio has been found to be improved, its underwriting profit has been increased to Tk.45.95 million in YE2019 from Tk.41.27 million in YE2018 registering a 11.34% growth.

5.4 Sectoral Business Review

CICL, as mentioned earlier, carries out all types of general insurance business. While analyzing the performance in terms of business classes, CRISL reviewed the sector wise businesses as follows:

5.4.1 Fire Business

Tk.6.90 million underwriting profit in YE2019 from Fire segment

Underwriting performance in fire business has been found to be average during the period. The total sum insured in this business segment stood at Tk.44,316.62 million in 2019 against Tk.42,206.31 million in 2018 registering 4.76% growth. The reinsurance coverage stood at 54.55% in 2019 against 48.75% in 2018. Due to increased business, the gross premium earnings also slightly increased to Tk.159.17 million in 2019 against Tk.150.96 million in 2018 having 2.04% growth. Net premium decreased to Tk.96.87 million in YE2019 from Tk.101.60 million in YE2018. Consequently, retention ratio in this segment decreased to 60.86% from 67.30% during the above periods respectively. Underwriting profit rose to Tk.6.90 million in 2019 against Tk.1.99 million in 2018 indicating 3.46 times growth. Underwriting profit increased due to decrease in net claim paid and increase in commission on re-insurance ceded. Claim ratio in this segment decreased to 10.70% in YE2019 against 24.49% in YE2018 due to comparatively decline of claim expenses against adjusted net premium earnings. Management expenses to adjusted net premium moved upward to 64.29% in YE2019 from 56.96% in YE2018 due to comparatively higher growth of management expense against adjusted net premium earnings decline. Moreover, agency commission to adjusted net premium increased to 20.19% in YE2019 from 18.98% in YE2018 due to increase of agency commission. Expense ratio in this segment moved upward to 84.49% in YE2019 against 75.94% in YE2018 due to significantly high growth of expenses against adjusted net premium earnings.

5.4.2 Marine Business

Tk.27.71 million underwriting profit in Marine business

Underwriting performance in marine business has been found to be average among its business segments. The total sum insured in this business segment stood at Tk.55,365.73 million in 2019 against Tk.52,729 million in 2018 registering 4.76% growth. The reinsurance coverage stood at 43.06% in 2019 against 32.02% in 2018. The gross premium earnings in this segment decreased to Tk.111.69 million in 2019 from Tk.125.44 million in 2018. Underwriting profit in this segment increased to Tk.27.71 million in YE2019 from Tk.20.50 million in YE2018. Underwriting profit increased due to decrease in agency commission paid and management expense. Retention ratio in this segment increased to 79.95% in YE2019 from 73.84% in YE2018. Claim ratio in marine segment has been found slightly downward to 8.28% from 8.53% during the above periods respectively due to comparative decrease in net claim payment against adjusted net premium. Expense ratio decreased to 62.19% in YE2019 from 66.89% in YE2018 due to control over management and agency expenses against adjusted net premium earnings. Combined ratio found moderate and slightly decreased to 70.47% in YE2019 against 75.41% in YE2018 due to cumulative effect of above mentioned expense and claim ratio.

5.4.3 Motor Business

Tk.8.88 million underwriting profit from Motor segment

Underwriting performance in motor segment has been found to be slightly declining. Total underwriting risk was Tk.3.16 billion in YE2019 (Tk.3.01 billion in YE2018) against reinsurance coverage of Tk.0.79 billion (Tk.0.59 billion in YE2018) indicating 25% reinsurance coverage. The gross premium decreased to Tk.37.76 million in YE2019 against of Tk.40.32 million in YE2018 indicating a decrease of 6.37%. The net premium earning declined to Tk.37.27 million in YE2019 from Tk.39.36 million in YE2018. The underwriting profit decreased to Tk.8.88 million from Tk.13.33 million during above periods respectively due to increase in net claim paid.

For President & CEO
Md. Asiful Huq
Chief Rating Officer
Credit Rating Information and Services Ltd.

CREDIT RATING REPORT
On
CENTRAL INSURANCE COMPANY LIMITED

The retention ratio in this segment increased to 98.70% in YE2019 from 97.64% in YE2018. The Claim ratio soared to 19.38% from 8.16% during the above periods respectively due to more claim payment comparative decline of net claim against adjusted net premium. Expense ratio increased to 59.05% in YE2019 from 57.66% in YE2018 due to a low growth of adjusted net premium earnings against management expense and agency commission.

5.4.4 Miscellaneous Business

Tk.2.46 million underwriting profit in Miscellaneous segment

Underwriting performance in miscellaneous business has been found to be average. CICL underwrote total risk of Tk.7.92 billion in YE2019 (Tk.7.54 billion in YE2018) in miscellaneous segment against reinsurance coverage of Tk.2.91 billion (Tk.2.88 billion YE2018) indicating 36.75% reinsurance coverage in YE2019. Gross premium increased to Tk.53.50 million from Tk.34.11 million. The net premium increased to Tk.11.83 million against Tk.9.82 million during the above periods respectively. The underwriting profit in this segment decreased to Tk.2.46 million in YE2019 from Tk.5.45 million in YE2018 due to increase in net claim paid. Claim ratio increased to 18.79% in YE2019 against 1.51% YE2018 due to increase in net claim payment against adjusted net premium earnings. Expense ratio in this segment increased to 62.49% in YE2019 from 63.43% in YE2018.

5.5 Retention Capacity

SBC revises retention limit of private sector general insurance companies from time to time depending on the financial strength, underwriting expertise etc. As per latest treaty (for the period April 1, 2020 to March 31, 2021), retention limit has been fixed at Tk.12.50 million in fire business, Tk.2.5 million in marine (cargo) business, Tk.2.5 million in marine (hull) business. Fire business is protected by excess of loss treaty in current reporting year. Retention limit for miscellaneous business stood at Tk.1.50 million for all business, Tk.0.2 million for personal accident and Tk.1.5 million for personal accident (accumulation). However, the motor business is being not protected by excess of loss treaty in current year. The retained loss in this segment is protected of Tk.0.50 million while maximum amount of Tk.3.50 million in excess of Tk.1.5 million is protected by SBC.

5.6 Investment Portfolio

Good Investment portfolio

CICL's investment portfolio has been found to be good. Maximum portion (70.59%) of investment is held in FDR indicating secured and conservative investment. Total investment of the company stood at Tk.813.09 million in YE2019 against Tk.814.09 million in YE2018. Out of the above investment, Tk.573.93 million has been invested in FDR (Tk.544.83 million in YE2018), Tk.25 million has been invested in BGTB (Tk.25.00 million in YE2018), Tk.101.07 million has been invested in shares (Tk.111.11 million in YE2018), Tk.100.00 million has been invested in CIC investment limited (Tk.100.00 million in YE2018). The company has considerable investment in capital market with the trading intent. As capital market is highly volatile and market prices of securities fluctuate very frequently, CICL is exposed to equity risk. Share market investment stood at Tk.101.07 million in YE2019 with market value of Tk.72.37 million indicating unrealized loss of Tk.28.70 million. To face the unrealized loss, the company maintains investment equalization fund and the fund stood Tk.19.60 million YE2019. During the surveillance period the interest earned on FDR & STD decreases of Tk.42.01 million in YE2019 compared to Tk.43.59 million in YE2018.

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CREDIT RATING REPORT
On
CENTRAL INSURANCE COMPANY LIMITED

6.0 PERFORMANCE

6.1 Financial Performance

Average financial performance

The overall financial performance of the company has been found to be average as against the previous year's performance. The total gross premium has been increased to Tk.362.12 million in YE2019 from Tk.350.83 million in YE2018 registering 3.22% growth. Net Premium slightly decreased to Tk.235.27 million from Tk.243.40 million as re-insurance premium has been charged proportionately high. The underwriting profit is also slightly increased to Tk.45.95 million in YE2019 against Tk. 41.27 million in YE2018. Interest on FDR & STD has been decreased to Tk.42.01 million in YE2019 against Tk.43.59 million in YE2018. Dividend income also decreased to Tk.4.65 million in YE2019 against Tk.6.91 million in YE2018 whereas others income increase to Tk.31.17 million YE2019 against Tk.23.73 million in YE2018. Total income slightly decreases to Tk.145.03 million YE2019 against Tk.145.75 million. The management expenses stood at Tk.14.69 million in YE2019 against Tk.17.05 million in YE2018 which triggered profit before tax (PBT) slightly improved and reached at Tk.130.34 million against Tk. 128.69 million during the above periods respectively. Continuing the aforementioned reason, the profit after tax (PAT) also slightly increased to Tk.100.90 million in YE2019 against Tk.100.16 million in YE2018 indicating 0.74% improvement. Major financial performance indicators slightly improved during the period compared to previous year. Gross underwriting margin increased to 55.15% in YE2019 against 52.67% YE2018. The net underwriting margin increased to 17.78% in YE2019 against 15.57% due to comparatively increase of underwriting profit against adjusted net premium earnings. Pre-tax operating margin increased to 50.44% against 48.54% during the above periods respectively due to increase of PBT against adjusted net premium earnings. Return on Average Asset (ROAA) slightly decreased to 7.11% in YE2019 and 7.33% in YE2018 . Return on Average Equity (ROAE) decreased to 8.85% against 9.14%. Due to decrease in investment income (Tk.67.91 million in YE2019 against Tk.80.75 million in YE2018) the Return on Average Investment (ROAI) moved downward to 8.35% in YE2019 from 10.15% in YE2018.

6.2 Technical Analysis

Average technical performance

The overall technical performance of CICL has been found to be in line with its peers. The retention ratio of the company has been found to be decreasing to 64.97% in YE2019 against 69.38% in YE2018 due to retaining maximum business in its own retention. The growth of management expenses stood at 2.09 %(Tk141.20 million in YE2019 against Tk.138.31million in YE2018) and the adjusted net premium earnings stood at Tk.258.43 million in YE2019 against Tk.265.14 million in YE2018 registering 2.53% decline. Consequently management expense to adjusted net premium ratio increased to 54.64% against 52.16% during the above periods respectively. The claim ratio improved to 11.63% in YE2019 against 14.92% in YE2018 due to decrease of net claim payment against adjusted net premium earnings. However, CICL is yet to reduce its management expenses and it is far above from allowable limit. Total management expenses (respective business classes and other non related business) stood at Tk.190.41 million in YE2019 against the allowable limit of Tk.102.55 million indicating 85.67% higher than allowable limit. The same was 87.66% higher in YE2018.

7.0 BALANCE SHEET STRENGTH

7.1 Solvency Analysis

Average solvency

Solvency position of CICL has been found to be average. As per Insurance Act 2010, the paid up capital has been re-fixed at Tk.400 million as minimum capital requirement for all general insurance companies while CICL has already enhanced its capital base to Tk.470.83 million from YE2017 and fulfilled regulatory minimum capital requirement. The equity base also increased to Tk.1,139.32 million in YE2019 against Tk.1,104.91 million in YE2018. Maximum portion of equity has been financed by capital. The equity consists of 41.33% paid up capital, 25.17% reserve for exceptional losses, 4.93% share premium, 2.55% general reserve, 19.85% other reserve and the remaining 6.17% as retained earnings.

For President & CEO
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CREDIT RATING REPORT
On
CENTRAL INSURANCE COMPANY LIMITED

While analyzing the overall solvency position of the company, it has been found to be average in terms of relative measurement. An external liability to equity ratio has been found to be slightly increased to 0.49 times in YE2019 and 0.50 times in YE2018. Unexpired risk reserve to net claim ratio increased to 3.21 times against 2.48 times in YE2018 due to comparatively lesser decrease of unexpired risk reserve against net claim payment. Net worth to total assets increased slightly to 62.48% in YE2019 from 61.85% in YE2018 due to higher growth in net worth against total asset. Internal Capital Generation Ratio (ICGR) increased to 4.64% against 4.35%, however, it has been found to be moderate among its peers. Net worth to total liability moved upward to 166.50% in YE2019 from 162.14% in YE2018, however, it has been found to be average. Insurance liability to total asset moved downward and stood at 5.24% in YE2019 from 5.28% in YE2018 indicating slightly increasing of liability against higher increasing of total assets.

7.2 Liquidity and Funding

Good liquidity

The overall liquidity position of the company has been found to be good. Liquid assets to insurance fund ratio moved upward to 7.39 times in YE2019 against 7.27 times in YE2018 due to comparatively more decrease of insurance fund against less decrease of total liquid assets. Liquid assets to total assets slightly moved downward to 38.38% from 39.58% during the above periods respectively due to comparatively higher growth of total assets against total current assets. Current ratio increase to 3.20 times in YE2019 and 3.03 times in YE2018. Liquid assets to net claim ratio increased to 23.76 times in YE2019 against 18.03 times YE2018. However, it has been found to be good among its peer. Moreover, liquid asset to total current liability ratio slightly increased to 1.83 times in YE2019 against 1.74 times in YE2018.

8.0 RISK MANAGEMENT

8.1 Industry Risk

Too many insurance companies in a small market pose significant risk for all the companies. The two acts 'Insurance Development and Regulatory Authority Act, 2010' and 'Insurance Act, 2010' has brought significant changes in the regulation of the industry. For further enhancing the solvency position, the paid up capital for non-life and life insurance companies have been raised to Tk.400 million and Tk.300 million respectively. Moreover, mandatory credit rating for the insurance companies created a positive vibration in the industry as the institutional insured expect for good credit rating to safeguard their interest. The same will pressurize the underperforming (non investment grade) insurance companies to retain their market share. Moreover, two more non-life insurance companies have commenced their business in small market.

8.2 Business Risk Management

CICL adopted underwriting guidelines to mitigate the business risk. In case of underwriting a policy, Underwriting professionals at branch level are given specific instructions and guidelines, time to time from Head Office regarding underwriting of different types of policies. The company has regular risk inspection team headed by Mr. S. M. Jahirul Alam with one Vice president and two senior manager. Risks involved with policies are assessed by surveyors companies for underwriting different types of policies involving specific limit of sum insured. However, in case of higher value at risk, the company makes inspection as and when required. Among the different business classes CICL has more concentration in risky marine (49.99%) followed by fire business (40.01%), miscellaneous (7.15%) and motor (2.85%) in YE2019 in terms of business risk undertaken. Besides, the zonal concentration of the company remained same in Dhaka region indicating significant business risk.

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CREDIT RATING REPORT
On
CENTRAL INSURANCE COMPANY LIMITED

8.3 Internal Control Risk Management

CICL has separate Internal Audit Department (IAD) besides the Board Audit Committee to ensure proper internal control of the company. The Department comprises of 4 officials headed by Mr. Md. Mizanur Rahman who is serving CICL as a Senior Manager having professional background on Internal Audit. Internal control department mainly deals with compliance issues of financial obligations. Internal Audit team of CICL audited the branches on their own program and sent the report to the MD/CEO and respective branches to comply with. When the branches replied, the reports were placed before the Audit Committee. During YE2019 and YE2018, the audit department conducted audits of 26 and 29 branches respectively. However, number branches audited have been found to be average among its branch network.

8.4 Catastrophic Risk Management

Bangladesh is vulnerable to natural disaster which exposes CICL to catastrophic risk. The company does not have CAT excess of loss treaty with SBC or any other insurance to protect the risk from fire business. For which there is a risk of catastrophic loss. However, CICL did not encounter any catastrophic loss in YE2019 & YE2018.

8.5 Financial Risk

The applicable income tax rate for insurance companies has presently been fixed at 37.5% on the taxable net profit. CICL is yet to finalize tax dispute of several years at DCT, AJICT and Tribunal Level and two appeals remain pending as stay order by Honorable High Court Division. CICL paid Tk.18.41 million and Tk.19.32 million during YE2019 and YE2018 respectively.

9.0 OBSERVATION SUMMARY

Rating Comforts:	Rating Concerns:
• Profitable underwriting performance • Average financial performance • Good capital base • Good liquidity • Good FDR base • Diversified investment portfolio • Experienced top management • Good branch network	• Substantial outstanding claim • High expense ratio • Unrealized loss on capital market exposure • Moderate market share • No reinsurance agreement with foreign reinsurer • Yet to start business of subsidiary operation • Decline in market capitalization • Significant business concentration with few clients • Static retention limit
Business Prospects:	**Business Challenges:**
• Expansion of branch network • Product diversification	• Too many companies in small market • Emergence of foreign companies

END OF THE REPORT

(Information used herein is obtained from sources believed to be accurate and reliable. However, CRISL does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. All rights of this report are reserved by CRISL. Contents may be used by news media and researchers with due acknowledgement)

[We have examined, prepared, finalized and issued this report without compromising with the matters of any conflict of interest. We have also complied with all the requirements, policy procedures of the BSEC rules as prescribed by the Bangladesh Securities and Exchange Commission.

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CREDIT RATING REPORT
On
CENTRAL INSURANCE COMPANY LIMITED

CRISL RATING SCALES AND DEFINITIONS
INSURANCE CLAIM PAYING ABILITY RATING

RATING	DEFINITION
AAA Triple A	Highest claims paying ability. Risk factors are negligible and almost risk free.
AA+, AA, AA- Double A	Very high claims paying ability. Protection factors are strong. Risk is modest. but may vary slightly over time due to underwriting and/or economic condition.
A+, A, A- Single A	High claims paying ability. Protection factors are good and there is an expectation of variability in risk over time due to economic and/or underwriting conditions.
BBB+, BBB. BBB- Triple B	Good claims paying ability. Protection factors are good. Changes in underwriting and/or economic conditions are likely to have impact on capacity to meet policyholder obligations than insurers in higher rated categories.
BB+, BB, BB- Double B	Average claim paying ability. Protection factors are average. The companies are deemed likely to meet these obligations when due. But changes in underwriting and/or economic conditions are more likely to weaken the capacity to meet policyholder obligations than insurers in higher rated categories.
B+, B, B- Single B	Inadequate Claim paying ability. Protection factors are weak. Changes in underwriting and/or economic conditions are very likely to further weaken the capacity to meet policyholder obligations than insurers in higher rated categories.
CCC	Uncertain claims paying ability. The companies may not meet these obligations when due. Protection factors are very weak and vary widely with changes in economic and/or underwriting conditions.
CC	Poor claims paying ability. Adverse underwriting or economic conditions would lead to lack of ability on part of insurer to meet policyholder obligations.
C	Very high risk that policyholders obligations will not be paid when due. Present factors cause claim paying ability to be vulnerable to default or very likely to be default. Timely payment of policyholder obligations possible only if favorable economic and underwriting conditions emerge.
D	Insurance companies rated in this category are adjudged to be currently in default.

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